

PROMPT PAYMENT INTEREST PENALTY

3694

(No. 57 November 2000)

Purpose/Use: Describes payment penalty for late payment of invoices.

Reference/Authority: APH 3641-3659; 3676 – 3693
Chapter 916, Statutes of 1998
Government Code Section 927 et seq.

Source: DAO

Forms/Related Documents: All pay documents (except utility documents)
CDF Invoice Dispute Notification ([AO-209](#))
CDF Invoice Dispute Notification Guide Card (AO-209gc)

Due dates:	Non fire season	Administrative Units	20 days
		DAO	10 days
	Fire season	Administrative Units	40 days
		DAO	20 days

Distribution: All administrative units.

Legislation was passed into law making late payment penalties payable to vendors effective January 1, 1999. Effective immediately, the Departmental Accounting Office (DAO) will implement procedures that capture and pay late payment penalties as prescribed by the California Prompt Payment Act (Chapter 916, Statutes of 1998) and Government Code Section 927 et seq.

Previously, penalty payments were paid to vendors only when the vendor requested penalties to be paid. Under the new law the payment of late penalty fees can no longer be waived, altered, or limited in any way by a state agency. Interest penalty payments are to be added to the vendor's original invoice prior to the claim schedule being presented to the State Controller's Officer (SCO) for payment.

SMALL BUSINESS VENDORS

Late payment penalties accrue on the 31st calendar day from when the invoice is received by CDF or on the day after a specified due date on the payment document. The current rate of penalty assessed per day is 00.25%. In some cases it may be difficult to determine whether a vendor is a small business vendor. All efforts must be made to determine status of vendors prior to submitting vendor payment documents to DAO for processing. One tool that is available for the verification of small businesses is the Department of General Services, Office of Small Business Certification and Resources Internet site. The Internet site address is www.osmb.dgs.ca.gov.

NOTE: DURING DECLARED FIRE SEASON, CDF DOES NOT HAVE A 30-DAY FIRE SEASON EXTENSION BEFORE INTEREST PENALTIES ACCRUE WITH SMALL BUSINESS VENDORS.

NON-SMALL BUSINESS VENDORS

Non-small business vendor invoices begin to accrue interest penalties on the 31st day from when the invoice is received by CDF or the day after a specified due date on the contract.

The non-small business penalty interest rate is determined annually by the Department of Finance based on the State's Pooled Money Investment Rate. Departments are notified of the new rate each fiscal year via a Department of Finance Budget Letter. Furthermore, penalties are **not** paid to non-small business vendors if the calculated penalty is less than \$75.00 for a single invoice.

NOTE: DURING DECLARED FIRE SEASON, CDF IS GIVEN AN EXTENSION OF 30 ADDITIONAL DAYS BEFORE INTEREST PENALTIES ACCRUE.

THE BUSINESS PROCESS

Effective immediately, DAO will begin reviewing, calculating, and coding interest penalties directly to appropriate index's and PCAs. If interest penalties apply, DAO will calculate and code the penalty due to the original invoice. The interest penalty portion will be coded to Object Code 545.00 and to the same Index and PCA used on the source document. Documents coded to E-Fund PCA's (00900) and to Capital Outlay PCA's (8XXXX) that include interest penalties will be coded to Agency Object Code 545.09 and 891.08 respectively using the Index and PCA of the source document. The exception that this coding would be for Emergency Fund coded documents where the PCA used for the penalty portion will be 02350. **NOTE: PENALTIES ARE NOT PAID TO NON-SMALL BUSINESS VENDORS IF THE CALCULATED PENALTY IS LESS THAN \$75.00 FOR A SINGLE INVOICE.**

To minimize the workload and the paperwork associated with copying and distribution of courtesy copies, DAO will send courtesy information over e-mail rather than send hardcopies of the invoices to the various locations. Courtesy information will only be sent when interest penalties have been added to the amount paid to the vendor.

The following timelines and procedures apply for the processing of applicable vendor invoices except for utility invoices and those from government agencies. Interest penalty assessments will not be due when payment documents are processed within these timelines:

	Non Fire Season	Fire Season
Administrative Units	20 calendar days	40 calendar days
DAO	<u>10 calendar days</u>	<u>20 calendar days</u>
Total Days	30 days	60 days

Penalties will accrue and become due and payable when the claim schedule is not processed to SCO by the 31st day (61st day for non-small business during fire season) from the date the undisputed invoice is **received by** CDF. The date **received by** can be determined by either the invoice date or the post marked date on the envelope, whichever is latest.

Invoice Disputes:

CDF may dispute an invoice submitted by a vendor for reasonable cause if CDF notifies the vendor within 15 working days from receipt of the invoice, or delivery of the produce or service, whichever is later. The CDF Invoice Dispute Notification (AO-209) must be used. When an invoice is properly disputed the timeline for calculating the interest penalty payment stops. The penalty timeline resumes when the vendor properly resubmits the invoice. Invoices can be disputed more than once if necessary, however, invoices cannot be disputed beyond the 15-day timeframe no matter what the cause. If invoices are disputed the AO 209 must be attached to the invoices when they are sent to DAO for processing.

NOTE: Invoices should not be disputed on the basis of minor or technical defects, in order to circumvent the general intent of the Prompt Payment Law.

Administrative Units:

Process and forward payment documents with postmarked envelope when applicable to DAO-Claims within 20 calendar days after receipt during non-fire season or within 40 calendar days during fire season for non-small business vendors to avoid penalty assessments. Small business vendor payment documents should be received by DAO within 20 calendar day for the administrative unit to avoid penalty assessments.

DAO-Claims

Date stamp incoming invoices and process in accordance with procedures outlined in the APH and deliver to the SCO within 10 calendar days after receipt during non-fire season or 20 calendar days during fire season for non-small business vendors to avoid penalty assessments. Small business invoices must be processed to SCO within 10 calendar days in order for DAO to avoid penalty assessments.

When it becomes necessary to pay a penalty, the following steps will be taken:

1. Use the appropriate object code (545.00, 545.09 or 891.08) for the amount of the penalty that is assessed to the administrative unit or DAO as determined by the number of days held.
 - A. Interest penalty payments will only be made when an undisputed invoice exceeds 30 days (or 60 days during fire season for non-small business) before being scheduled to SCO for payment. In cases where both the unit and DAO have exceeded their allotted time the interest penalty payment will be charged proportionately to the unit and DAO based on the number or days held beyond their allotted times.
 1. During non-fire season, if an invoice took 50 days to pay and the administrative unit held the invoice for a total of 30 days and DAO held that same invoice for an additional 20 days, both the unit and DAO would each be assessed 50% of the interest penalty.
 2. If an invoice is held by the administrative unit beyond 20 days (or beyond 40 days during fire season for non-small businesses), and it took DAO 10 days or less (20 days or less during fire season for non-small business) to process the claims schedule, the administrative unit would be assessed 100% of any interest penalty payment due. Conversely, DAO would be charged 100% of the interest penalty payment if the invoice was not claim scheduled to SCO within the required 10 day (20 days during fire season for non-small businesses). Also, the administrative unit took no more than 20 days (40 days during fire season for non-small business) processing time before submitting the invoice to DAO.
2. Prepare a Claim Schedule in accordance with current procedures and submit to the SCO.
3. Send courtesy information of interest penalty via email to appropriate administrative unit.

OTHER PROVISIONS

1. Except for the Emergency Fund (refer to item number 4 below), payment penalties will be charged to the same appropriation of the original purchase. For example, if a penalty is assessed to a Capital Outlay invoice, the penalty will be coded to object code 891.08 using the same index and PCA on the invoice.
2. Penalty payments will not be assessed to utility invoices (electricity, telephone, water, sewer, garbage) as late fees are usually determined by the Public Utilities Commission and not paid as part of the Prompt Payment Act.

3. Penalty payments will be paid for CAL-Card transactions. However, the penalty payments will be those which appear on the F110 Invoice Status Report. It is important to note that the F110 report does not currently reflect the 30-day fire season extension, therefore DAO will reduce the penalty shown on the F110 report when applicable.
4. The Prompt Payment Act does not permit state agencies to seek appropriation augmentation to pay for penalties that have accrued as a result of the agencies failure to make timely payments as required by law. Therefore, CDF will not code penalty charges to the E-Fund. The coding used for the penalty portion will be 02350.

FORMS AND/OR FORMS SAMPLES: RETURN TO CDF LIBRARY
HOME PAGE FOR FORMS/FORMS SAMPLES SITE LINK.

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